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FISCAL IMPACT STATEMENT

LS 7131

BILL NUMBER: HB 1157

NOTE PREPARED: Jan 4, 2004

BILL AMENDED:

SUBJECT: School corporation insurance.

FIRST AUTHOR: Rep. Fry

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires the State Personnel Department (SPD), in cooperation with the Department of Insurance (DOI), to implement a pilot project through which active and retired employees of ten school corporations chosen by the DOI participate in the state employee health benefit plan. It prohibits the state from paying any part of the cost of the school corporation employee coverage. The bill sets forth provisions allowing school corporations to enter into interlocal agreements to establish a cooperative risk management program to provide for coverage of certain risks of the school corporations.

Effective Date: Upon passage; July 1, 2004.

Explanation of State Expenditures: *Health Insurance Pilot:* Ten schools selected by DOI would be able to participate in the state health insurance program. The pilot program lasts until a date not earlier than July 2010 and not later than December 2010. SPD is required to file an annual report with the Legislative Council. The report should provide information on the effect of the pilot on the state employee health plan, including the effect on premium rates, costs to the state and the school corporation, and other relevant information. SPD may incur some additional costs in generating the report since some additional actuarial studies may be needed.

The state may not pay any part of the cost of coverage for the participating schools. The state could have some increases in health costs if the actuarial experience of the participating schools is worse than the state's experience or reduced cost if the school's experience is better than the state's experience. Since schools chose to participate, schools with health care costs higher than the state would probably chose to participate in the pilot. The state costs for the Anthem Traditional plan are \$3,640 for single and \$10,010 for family. The total premium costs, employer and employee, for the Anthem Traditional plane are \$4,130.36 for single and

\$11,583.78 for family.

Cooperative Risk Management: The cooperative must send copies of audit reports, by-laws, interlocal agreements, certified financial statements, and other documents to the Commissioner of Insurance and a copy of the audit report to the State Board of Accounts. If the cooperative fails to have an audit performed, the Commissioner of Insurance must cause the audit to be performed at the expense of the cooperative. If a cooperative fails to comply, the Commissioner must issue a notice of noncompliance. After a cooperative receives a notice of noncompliance, the cooperative must file with the Commissioner a written request for time to restore compliance and a plan to restore compliance. If the plan is not filed, not approved by the Commissioner, or at the end of one year the cooperative program is not in compliance, the Commissioner may grant additional time to comply, or suspend, limit, or terminate the authority of the cooperative. The Department of Insurance (DOI) may adopt rules to implement the above.

The above provisions will increase administrative expenses for the DOI. However, it is assumed that the DOI will be able to absorb these additional expenses given its current budget and resources

Explanation of State Revenues:

Explanation of Local Expenditures: *Health Insurance Pilot:* Schools that chose to participate in the pilot would probably have higher health insurance costs than the state, so there would probably be a reduction in health costs. Pilot schools that negotiate health benefits as part of their collective bargaining process could have some increased administrative costs if the agreement has to be changed to reflect the change in coverage.

Cooperative Risk Management: The bill could reduce the insurance costs of local school corporations. It allows schools to enter into interlocal agreements to establish a cooperative risk management program for insurance. The program would be to jointly self-insure certain risks and purchase excess coverage if claims exceeded a certain amount for:

1. Casualty insurance.
2. Property insurance.
3. Automobile insurance.
4. Surety and fidelity insurance coverage.
5. Umbrella and excess insurance coverage.
6. Worker's Compensation coverage.

The establishment of the program might allow schools to insure a greater risk together than they could individually and reduce costs of aggregate insurance coverage they might require. It is assumed schools would only enter into the agreements if they saved money or reduced exposure to future expenditures.

Explanation of Local Revenues:

State Agencies Affected: Department of Insurance, State Personnel Department, and the State Board of Accounts.

Local Agencies Affected: Schools.

Information Sources:

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